

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 ( ISO ) W  
----- 110775

O P 201415Z MAY 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 4081

INFO AMEMBASSY JIDDA IMMEDIATE

AMEMBASSY TEHRAN

AMEMBASSY VIENNA PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 5061

EXDIS

VIENNA FOR ASSISTANT SECRETARY ATHERTON

JIDDA ALSO FOR UNDER SECRETARY ROBINSON

E.O. 11652: NA

TAGS: USEGJC EAID OVIP (ROBINSON, CHARLES)

SUBJECT: ECONOMIC ASSISTANCE TO EGYPT: VISIT OF  
UNDER SECRETARY ROBINSON

SUMMARY: ON MAY 20 UNDERSECRETARY ROBINSON,  
ACCOMPANIED BY CHARGE, POATS, TEMPLETON, MATTHEWS  
AND PECK, CALLED ON MINFIN ABU ISMAIL AND PRIMIN  
SALIM SEPARATELY FOR DETAILED DISCUSSIONS OF  
CURRENT STATUS US EFFORTS MOBILIZE ASSISTANCE TO  
EGYPT. PRIMARY PURPOSE FOR PRESENTATION WAS TO  
EXPLAIN DIFFICULTY OBTAINING COMMITMENTS FROM  
NUCLEUS STATES WITHOUT SOME FORM OF ASSURANCE  
THAT GOE WAS TAKING STEPS TOWARD RATIONAL MANAGEMENT  
OF ITS FOREIGN EXCHANGE RESOURCES. CONSULTATIONS  
WITH IBRD WERE PROPOSED AS BEST METHOD FOR PROVIDING  
NECESSARY CONFIDENCE AND AGREEMENT OF PRIMIN TO ASK  
FOR SUCH CONSULTATIONS WAS OBTAINED. GOE MEETING WITH IBRD  
SCHEDULED MAY 22. END SUMMARY.

1. IN MAY 20 CALL ON MINFIN ABU ISMAIL, UNDER SECRETARY  
ROBINSON EXPLAINED THAT US EFFORTS TO OBTAIN COMMITMENTS  
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OF SUPPORT FROM OTHER MEMBERS OF AID NUCLEUS WERE HAVING

SOME SUCCESS. IN MEETING WITH SHAH LAST WEEK, HOWEVER, LATTER SAID THAT IRAN WOULD PARTICIPATE BUT RESISTED PROPOSAL THAT IRAN'S SHARE EQUAL US AND SAUDI SHARES. USG WILL CONTINUE URGE HIS FULL PARTICIPATION AS WELL AS SUBSTANTIAL SUPPLEMENTAL SUPPORT FROM OTHER COUNTRIES SUCH AS KUWAIT, ABU DHABI, JAPAN, GERMANY, ETC. UNDER SECRETARY EXPLAINED THAT PROBLEM IN OBTAINING NECESSARY ASSISTANCE AND SUCCESS THAT WILL BE HAD IN THIS REGARD WILL DEPEND UPON EXTENT TO WHICH GOE CAN CONVINCE DONORS AND OTHERS THAT REQUIRED STEPS HAVE BEEN TAKEN TO INSURE RATIONAL MANAGEMENT OF EGYPTIAN FOREIGN EXCHANGE AVAILABILITIES. THIS IS PARTICULARLY IMPORTANT IN CASE OF COMMERCIAL BANKS, HE POINTED OUT, SINCE THEY MUST HAVE ASSURANCES THAT PROGRAMS BEING UNDERTAKEN ARE SOUND AND OFFER GOOD POSSIBILITY OF LONG TERM SOLUTION TO EGYPT'S FINANCIAL DIFFICULTIES. USG IS WILLING TO URGE US COMMERCIAL BANKS TO CONSIDER EXTENSIONS OF MEDIUM TERM LOANS IN PLACE PRESENT SHORT TERM FACILITIES IN ORDER TO ASSIST EGYPT OVERCOME EXISTING LIQUIDITY CRISIS. FOR BOTH BANKS AND POTENTIAL DONOR COUNTRIES, HOWEVER, BEST ASSURANCE THAT PROBLEMS WILL BE SOLVED WOULD BE EVIDENCE THAT GOE IS CONSULTING WITH IBRD ON STEPS THAT SHOULD BE TAKEN.

2. UNDER SECRETARY POINTED OUT THAT US CONGRESS AND GOVERNMENTS OF SAUDI ARABIA AND IRAN SHARE OUR DESIRE TO BE OF HELP BUT ALSO SHARE OUR CONCERN OVER MAGNITUDE OF SHORT TERM PROBLEM AND ITS CAUSES. CONSULTATIONS WITH WORLD BANK WOULD PROVIDE NECESSARY ASSURANCES FOR SHORT TERM, AND FACILITATION OF PRIVATE FOREIGN INVESTMENT IN NATIONAL DEVELOPMENT WOULD EVIDENCE GOE COMMITMENT TO LONG RANGE DEVELOPMENT GOALS.

3. MINFIN ABU ISMAIL REPLIED THAT ADMINISTRATION OF EXCHANGE IS NOT PROBLEM, IT IS LACK OF INPUTS THAT WOULD PERMIT GROWTH OF AGRICULTURAL AND INDUSTRIAL EXPORTS. UTILIZATION OF IDLE CAPACITY,  
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RECONSTRUCTION, AND DEVELOPMENT OF INFRASTRUCTURE WERE HIGH PRIORITY AND REQUIRED RELIANCE ON FOREIGN ASSISTANCE. UNDER SECRETARY POINTED OUT LONG TERM NATURE OF THIS APPROACH AND FACT THAT US AND OTHERS WERE CONCERNED OVER CURRENT LIQUIDITY CRISIS. HE STRESSED UTILITY OF IBRD AS ADVISOR IN DEVISING RATIONAL PROCEDURES FOR DEALING WITH LATTER PROBLEM. BANK TEAM IS PRESENTLY IN CAIRO, AND IN

DISCUSSIONS WITH PRESIDENT MCNAMARA, UNDER SECRETARY WAS ASSURED OF BANK'S SYMPATHETIC SUPPORT OF EGYPT'S LONG TERM GOALS AND WILLINGNESS TO ADVISE ON SHORT TERM PROCEDURES AS MEANS OF ATTAINING THEM.

4. ABU ISMAIL SAID HE WAS WILLING TO SHOW BANK TEAM EVERYTHING THEY NEED TO SEE. THERE ARE NO SECRETS AND TEAM WILL BE CONVINCED EGYPT IS DOING RIGHT THING. HE ADMITTED THAT BECAUSE OF FOREIGN EXCHANGE SHORTAGES, SOME PRIORITY ACTIONS, INCLUDING DEBT SERVICE, HAVE BEEN DELAYED BUT THESE ARE TEMPORARY PROBLEMS.

5. POATS COMMENTED THAT POTENTIAL DONORS ARE ABLE TO SEE THAT EXISTING FOREIGN EXCHANGE MANAGEMENT SYSTEM HAS RESULTED IN INABILITY TO SERVICE SHORT TERM DEBT AS WELL AS SOME OFFICIAL LOANS, INCLUDING A FEW THAT HAVE BEEN RESCHEDULED. AT SAME TIME IMPORTS HAVE GROWN MARKEDLY AND EGYPT APPEARS EXPECT MORE AID AND MORE BANKING FACILITIES TO MAKE UP SHORTAGE. OVERALL IMPRESSION THEREFORE IS THAT MANAGEMENT FOREIGN EXCHANGE AVAILABILITIES IS NOT EFFECTIVE AND USG CANNOT TELL COMMERCIAL BANKS AND OTHERS THAT SYSTEM WORKS SINCE IT CLEARLY DOES NOT. IN ORDER TO PROVIDE ASSURANCE THERE WILL BE REDUCTION IN OVERDUE OR UNPAID DEBTS, THERE MUST BE AN ANNOUNCED STRUCTURAL CHANGE IN EXISTING PROCEDURES. ONLY ON THAT BASIS CAN THERE BE EXTENSIONS OF CREDIT AND ASSISTANCE WITH CONFIDENCE.

6. ABU ISMAIL REPLIED THAT PROBLEM WAS BEING EXAMINED FROM WRONG END. FOREIGN EXCHANGE BUDGET IS RESULT OF GOVERNMENT POLICY, NOT CAUSE. DECISIONS FROM YEARS  
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PAST SHOW UP IN CURRENT DATA. IT IS GOVERNMENT PLANS THAT ARE MEANINGFUL, NOT MERE BUDGET MANAGEMENT. FAITH IN GOE WILL CREATE REQUIRED CONFIDENCE. PRESENT REGIME WISHES TO BUILD ECONOMY ON SOUND LINES AND HAVE EXPENDITURES BALANCE RESOURCES BUT THAT IS NOT POSSIBLE THIS YEAR, DUE TO PROBLEMS INHERITED FROM PAST. WE ARE TRYING, HE SAID, BUT JOB IS DIFFICULT.

7. UNDER SECRETARY STATED HE WAS LEAVING SAME AFTERNOON FOR SAUDI ARABIA AND ASKED IF HE WOULD BE ABLE TO STATE GOE WILLING TO DISCUSS PROBLEM WITH BANK. ABU ISAMIL REPLIED HE WAS PERSONALLY WILLING BUT PRIMIN MUST MAKE DECISION. UNDERSECRETARY ASKED IF MINFIN WOULD CONVEY HIS WILLINGNESS TO PRIMIN TO INVITE IBRD TO CONSULT.

HE REPLIED THAT HE WOULD.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 ( ISO ) W

----- 111163

O P 201415Z MAY 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 4082

INFO AMEMBASSY JIDDA IMMEDIATE

AMEMBASSY TEHRAN

AMEMBASSY VIENNA PRIORITY

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 5061

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8. AS FINAL MATTER UNDERSECRETARY BROACHED QUESTION OF MISINTERPRETATION IN PRESS OF SADAT'S STATEMENT RE PAYMENT OF SOVIET DEBT AND ADVERSE EFFECT THIS SORT OF THING HAS ON CONGRESS AND PUBLIC. POASTS POINTED OUT THAT STANDARD APPROACH WHILE EMERGENCY BALANCE OF PAYMENTS RELIEF IS BEING RECEIVED BY A COUNTRY IS THAT ITS SERVICE ON DEBTS TO MAJOR CREDITORS SHOULD NOT EXCEED NEW ASSISTANCE RECEIVED FROM THEM, THERE MUST BE NO NET REPAYMENT. USG MUST BE ABLE TELL CONGRESS AND OTHERS THAT GOE WILL NOT USE NEW AID, DIRECTLY OR INDIRECTLY, TO PAY OFF EXISTING DEBTS TO MAJOR OFFICIAL CREDITORS. ABU ISMAIL INDICATED HE UNDERSTOOD AND ACCEPTED THIS POINT.

9. IN MEETING WITH PRIMIN SALIM WHICH IMMEDIATELY FOLLOWED SESSION WITH ABU ISMAIL, UNDER SECRETARY AGAIN EXPLAINED CURRENT STATUS US EFFORTS TO GAIN SUPPORT OF IRAN AND SAUDI ARABIA AS NUCLEUS OF DONORS FOR ASSISTANCE NEEDED BY EGYPT. SUCCESS OF THESE EFFORTS, PLUS SUPPLEMENTAL PARTICIPATION FROM OTHER POTENTIAL DONORS, WILL HINGE TO GREAT EXTENT UPON STEPS GOE COULD TAKE TO CONVINCE OBSERVERS THAT MANAGEMENT OF ECONOMY IS RATIONAL AND PROVIDES SOUND BASIS

FOR SOLUTION SHORT-TERM LIQUIDITY CRISIS AS WELL AS  
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PROSPECTS FOR LONG-TERM DEVELOPMENT. THIS WILL BE  
ESPECIALLY IMPRTANT IN CASE OF COMMERCIAL BANKS WHICH  
HAVE EXTENDED FACILITIES TO EGYPT, SINCE THEY NEED  
ASSURANCES THAT SHORT-TERM PROBLEM CAN BE  
EFFECTIVELY MANAGED. USG BELIVES THIS CAN BEST BE  
ACCOMPLISHED IF WE CAN TELL BANKS AND OTHER NATIONS  
THAT IBRD IS BEING CONSULTED.

10. PRIMIN REPLIED THAT AT TIME OF UNDER SECRETARY'S  
LAST VISIT MINISTERS WERE NEW IN JOBS AND WERE FACED  
WITH NECESSITY CORRECTING PREVIOUS MISMANAGEMENT.  
NOW NUMEROUS DECISIONS ARE BEING MADE AND STEPS  
ARE BEING TAKEN TO FACILITATE SOLUTIONS TO PROBLEMS.  
BASIC PROBLEM IS SHORT-TERM LIQUIDITY. IN ORDER TO  
CONVERT SHORT-TERM LOANS TO MEDIUM-534., IT IS  
SEEKING 500 MILLION EGYPTIAN POUNDS IN REFINANCING  
LOANS. COOPERATION WITH IMF AND IBRD WILL CONTINUE  
AS IN PAST; THEIR OPINIONS ARE ALWAYS WELCOME. GOE  
HAS, HOWEVER, BEEN UNWILLING FOR POLITICAL REASONS  
TO ACCEPT IMF PRESSURE FOR DEVALUATION NOW.

11. UNDERSECRETARY REPLIED THAT IBRD TAKES  
MORE FLEXIBLE POSITION THAN IMF SINCE IT IS MORE  
CONCERNED WITH LONG-TERM DEVELOPMENT. IBRD  
COULD BE EXTREMELY USEFUL IN ADVISING GOE ON  
PROCEDURES FOR IMPROVING FOREIGN EXCHANGE MANAGEMENT,  
THEREBY BETTER COPING WITH SHORT-TERM CRISIS AS WELL.  
THERE IS CONSIDERABLE DIFFERENCE BETWEEN USG'S  
ASSURING OTHER DONORS AND COMMERCIAL BANKS  
THAT THINGS ARE GOING WELL AND HAVING SAME TESTIMONY  
FROM IBRD. EXPRESSIONS OF WILLINGNESS ON PART OF GOE  
TO INVITE BANK TO CONSULT ON PROBLEM WOULD BE  
OF EXTREME UTILITY IN OUR EFFORTS TO ENCOURAGE  
COMMERCIAL BANKS TO SHIFT FROM SHORT TO MEDIUM-TTERM  
CREDITS. IBRD WOULD HAVE TO BE INVITED TO CONSULT,  
AND EXPRESSED WILLINGNESS ON PART OF GOE TO DO SO  
WILL BE CRITICAL AT THIS JUNCTURE.

12. PRIMIN ASKED IF SUCH INVITATION TO IBRD WOULD  
ENTAIL OBLIGATIONS ON PART OF GOE TO FOLLOW BANK'S  
ADVICE. UNDERSECRETARY REPLIED THAT GOE AS  
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SOVEREIGN STATE CAN ACCEPT RECOMMENDATIONS OR NOT AS IT SEE FIT, BUT IT WOULD BE OF CONSIDERABLE UTILITY IF HE COULD TELL SAUDIS THAT INVITATION WOULD BE EXTENDED . PRIMIN AGREED TO TAKE NECESSARY STEPS TO DO SO.

13. UNDER SECRETARY POINTED OUT THAT NO NET REPAYMENT OF EXISTING INDEBTEDNESS TO MAJOR FOREIGN OFFICAL CREDITORS SHOULD TAKE PLACE DURING PERIOD WHEN EMERGENCY ASSISTANCE IS BEING EXTENDED AND WE NEEDED GOE'S ASSURANCES THAT THIS RULE WOULD BE FOLLOWED. PRIMIN REPLIED THAT HE UNDERSTOOD AND WAS IN AGREEMENT.

14. COMMENT: ALTHOUGH INITIALLY RELUCTANT, APPARENTLY BECAUSE OF CONCERN THIS WOULD MEAN FOREIGN INTERFERENCE, BOTH MINFIN AND PRIMIN EVENTUALLY INDICATED THEIR WILLINGNESS TO MEET WITH IBRD TEAM PRESENTLY IN CAIRO, ON THE UNDERSTANDING THAT THIS CONSULTATION WOULD NOT ENTAIL ANY OBLIGATION ON GOE'S PART. FOLLOWING DEPARTURE OF UNDER SECRETARY FOR RIYADH, CHARGE RECEIVED TELEPHONE CALL FROM ABU ISMAIL WHO REPORTED THAT, AFTER CONSULTATION WITH SALIM, HE WAS ARRANGING FOR MEETING WITH IBRD TEAM MAY 22, TOGETHER WITH PRIMIN.  
MAESTRONE

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## Message Attributes

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**To:** STATE  
**Type:** TE  
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